

The Federal Farm Loan Act

Synopsis of Its Salient Features Prepared by H. M. Hanson, Secretary-Treasurer Farm Mortgage Bankers' Association of America

FEDERAL FARM LOAN ACT

Passed by the House of Representatives and the United States Senate June 27 and 28, 1916, respectively.

Signed by the President July 17, 1916.

3.—Provides for a federal land bank system in the continental United States (exclusive of Alaska), dividing the country into twelve land bank districts composed of whole states.

3.—The system is operated as a bureau of the United States treasury department and supervised by the federal farm loan board. The secretary of the treasury is ex-officio chairman of the board with four other members appointed by the president for eight years at an annual salary of \$10,000. One member is designated farm loan commissioner and is the active executive officer.

3.—Register of Board: (a) Farm loan appraisers for each land bank district and (b) One or more land appraisers for each land bank district. Salaries paid by federal land bank or joint stock land bank for which they are employed by the United States.

(c) Land bank examiners; salaries paid by the United States.

(d) Attorneys, experts, assistants and other employees to be paid by the United States.

17.—Powers of the Board: (a) To organize and charter federal land banks, joint stock land banks and national farm loan associations.

(b) To review and alter the rate of interest to be charged by federal land banks for loans.

(c) To approve or reject any or all loans for bond issue and to grant or refuse any specific issue of farm loan bonds of federal land banks and joint stock land banks.

(d) To regulate charges for appraisal, examining titles and recording.

(e) To appraise land securing mortgages for bond issue.

(f) To exercise general supervisory authority over the federal land banks, farm loan associations and joint stock land banks.

20.—The farm loan commissioner shall examine the laws of every state and if on examination the laws of any state are shown to afford insufficient protection to holders, its mortgages shall be declared ineligible under this act during the continuance of the laws in question.

22.—The secretary of the treasury is authorized to deposit United States funds in federal land banks at current government rates of interest, the aggregate of such funds not to exceed \$5,000,000 at any one time.

FEDERAL FARM LOAN BANKS

ORGANIZATION.

Section 4.—One in each land bank district. Branches permitted within its district. Officers: President, vice president, secretary and treasurer; directors; six representatives of farm loan associations and three representatives of the public in the land bank.

All salaries fixed by farm loan board and paid by bank. Subject to semi-annual examinations by land bank examiner.

CAPITAL STOCK.

Sec. 5.—\$750,000. May be owned by individuals, firms, corporations and the United States and state governments.

Sec. 6.—All stock remaining unsubscribed 30 days after subscription books are opened shall be subscribed by the United States and thereafter only the United States government and borrowers may acquire shares of stock.

Sec. 7.—United States government not to participate in dividends. All other stockholders share dividends equally.

Sec. 8.—The original capital stock shall be gradually retired after the stock held by farm loan associations shall amount to \$750,000.

Sec. 9.—Not less than 5 per cent of capital shall be invested in United States government bonds.

POWERS.

Sec. 12.—To buy first farm mortgages within its district and to issue and sell farm loan bonds.

Sec. 13.—To receive from farm loan associations interest and amortization payments on mortgages and farm loan bonds.

Sec. 14.—To acquire and dispose of real and personal property necessary for the convenient transaction of business; and land taken in satisfaction of debts or purchased under judgments, decrees or mortgages sold by it. Shall not hold title exceeding five years.

Sec. 15.—To accept deposits of securities or current funds from member associations but pay no interest thereon.

Sec. 16.—To borrow money on security and pay interest thereon.

Sec. 17.—To buy and sell United States bonds.

Sec. 18.—To appraise lands for bond issue and to charge applicants and borrowers the cost of land appraisal, examining titles, recording and other legal fees, said fees to be paid in cash or be made part of loan and paid in amortization payments.

Sec. 19.—To accept mortgages only from farm loan associations and approved agents.

Sec. 20.—To accept deposits of current funds only from its stockholders.

Sec. 21.—To become financial agents of United States government and depository of public money. Public deposits cannot be invested in mortgages or farm loan bonds.

Sec. 22.—To deposit its securities and current funds subject to check with any member bank of the federal

convertible into farm loan bonds at the federal land bank of its district.

Sec. 7.—To receive and transmit to the federal land bank payments of interest and principal and amortization payments.

LOANS.

Sec. 12.—Loans shall be secured by first mortgages on land within its land bank district.

Section 12.—To run from 5 to 40 years with amortization and with additional optional prepayments after five years.

Sec. 12.—Interest on loans shall not exceed 6 per cent per annum on the unpaid principal.

Sec. 12.—Borrowers shall pay 8 per cent simple interest on defaulted payments.

Sec. 12.—Loans may be made for the following purposes and for no other under penalty:

(a) To purchase land for agricultural purposes.

(b) To purchase equipment, fertilizer and live stock for the operation of the mortgaged farm.

(c) To provide buildings and for the improvement of farm lands.

(d) To pay debts existing at time of organization of the first national farm loan association within the county.

Sec. 12.—Maximum loan \$10,000; minimum loan \$100.

Sec. 12.—No loan shall exceed 50 per cent of the value of the land mortgaged and 20 per cent of the permanent improved improvements.

Sec. 12.—No loans shall be made to any person who is not at the time or shortly to become engaged in the cultivation of the farm mortgaged.

Sec. 12.—All applications for loans originate with the national farm loan associations or agents and all loans are made and closed by the federal land banks. This does not apply to joint stock land banks.

TAXATION.

Sec. 25.—The capital stock, surplus, investments and farm loan bonds, and all income derived therefrom are exempt from federal, state, municipal and local taxation.

Sec. 26.—Real property taken and held under the provisions of sections 11 and 13 is not tax exempt.

AGENTS.

Sec. 15.—Incorporated banks, trust companies, mortgage companies or chartered savings institutions may act as agents for federal land banks if no farm loan association has been formed in a given locality after one year.

Sec. 15.—Borrowers securing loans through agents are required to subscribe 5 per cent of the loan to the capital of the federal land bank.

Sec. 15.—Agents are entitled to a commission of one-half of 1 per cent per annum on unpaid principal of each loan they negotiate and the bank shall pay agent for actual expenses for appraising land, examining titles, executing and recording mortgages and papers which shall be added to the face of the loan.

Sec. 15.—Agents shall indorse and become liable for the payment of the loans they negotiate and the aggregate unpaid principal of such loans shall not exceed ten times the agent's capital and surplus.

Sec. 15.—Agents are required to make good any default within 30 days after notice.

Sec. 15.—All collections made shall be remitted without charge.

Sec. 22.—Amortization and other payments constitute a trust fund to be invested as follows:

(a) To pay off maturing farm loan bonds.

(b) To purchase farm loan bonds.

(c) To lend on first farm mortgages within the district.

(d) To buy United States government bonds.

Sec. 23.—Reserve and dividends: No limit is placed on dividend distribution after a reserve account has been built up from earnings equal to 20 per cent of the net earnings annually per share.

Sec. 23.—Reserve funds to be invested as prescribed by the federal farm loan board.

Sec. 27.—Farm loan bonds are lawful investments for fiduciary and trust funds and security for all public deposits.

Sec. 29.—Provision is made for dissolution and the appointment of a receiver.

Sec. 14.—No commission or charge not specifically authorized in this act shall be demanded or received.

NATIONAL FARM LOAN ASSOCIATIONS

ORGANIZATION.

Section 7.—Ten farm owners desiring loans aggregating \$20,000 or more may form such an association.

Sec. 7.—Its affairs are administered by five directors, including president, vice president and a loan committee of three serving without compensation, and by a secretary treasurer with salary fixed by the farm loan board and paid by the association.

Sec. 8.—Shares, \$5 each; (3) carrying double liability; (5) may be owned only by borrowers who are required to subscribe 5 per cent of their loan in the capital stock of the association which in turn subscribes an equal amount of stock in the federal land bank.

Sec. 8.—Shares are paid for in cash or (5) the amount may be added to the face of the loan and retired in amortization payments at par. In such case the face of the loan shall not exceed the 50 per cent and 20 per cent limitation.

Sec. 7.—Assessment on shares may be levied for operating expenses if funds are not otherwise available.

Sec. 10.—To appraise land for mortgage through its loan committee of three.

Sec. 11.—To indorse and become liable for the mortgages of its shareholders.

Sec. 11.—To receive and deliver the proceeds of loans to borrowers.

Sec. 12.—To acquire and dispose of property necessary for the convenient transaction of its business.

Sec. 11.—To issue certificates of deposit for not longer than one year and to pay 4 per cent interest thereon.

Sec. 14.—To accept mortgages only from farm loan associations and approved agents.

Sec. 14.—To accept deposits of current funds only from its stockholders.

Sec. 15.—To become financial agents of United States government and depository of public money. Public deposits cannot be invested in mortgages or farm loan bonds.

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TAXATION.

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JOINT STOCK LAND BANKS

ORGANIZATION.

Section 16.—A private corporation subject to the requirements under this act which may be formed by ten or more persons with a board of directors of five or more.

Sec. 16.—May operate within the state in which its principal office is located and within one contiguous state.

Sec. 16.—Subject to semi-annual examination by the federal land bank examiner.

CAPITAL STOCK.

Sec. 16.—\$250,000 minimum.

Sec. 16.—Double liability of shareholders.

Sec. 16.—The United States government shall own none of the shares of stock.

Sec. 16.—No farm loan bonds can be issued until the capital stock is fully paid, although the bank may begin business when one-half of the capital is subscribed and paid in cash.

Sec. 16.—To lend money on farm mortgage security.

Sec. 16.—To issue and sell farm loan bonds.

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